CARLING O'KEEFE LIMITED ANNUAL REPORT 1981

The Carlsberg family—Carlsberg Light, Carlsberg Gold and Carlsberg. During the year, Carling O'Keefe introduced Carlsberg Light in Ontario and Quebec and Carlsberg Gold premium malt liquor in Ontario.

CARLING O'KEEFE LIMITED

ANNUAL REPORT

1981

SUMMARY OF OPERATIONS

	1981	1980	1979
BEER			
Sales hectolitres	4,991,000	5,178,000	4,769,000
Sales value	$481,189,000	$432,546,000	$360,593,000
WINE			
Sales litres	22,277,000	20,942,000	21,581,000
Sales value	$ 44,021,000	$ 35,873,000	$ 33,525,000
OIL AND GAS			
Sales–Gas ($10^3 m^3$)	139,000	141,000	118,000
–Oil and other (m^3)	82,000	82,000	78,000
Sales value	$ 12,138,000	$ 9,640,000	$ 7,155,000
CONSOLIDATED			
Sales value	$537,348,000	$478,059,000	$401,273,000
Earnings before extraordinary items	$ 19,785,000	$ 17,338,000	$ 13,612,000
Earnings after extraordinary items	$ 30,285,000	$ 17,338,000	$ 13,934,000
Earnings per common share			
–before extraordinary items	82¢	70¢	53¢
–after extraordinary items	$1.30	70¢	54¢
Dividends per common share	20¢	10¢	5¢

Report to the Shareholders

The 1980/81 fiscal year was a successful one for Carling O'Keefe Limited. Sales revenue and earnings increased over the previous year despite reduced sales volume in the Canadian brewing subsidiary due to industry work stoppages in British Columbia and Alberta as a result of labour disputes.

Consolidated earnings from operations before extraordinary items for the year were \$19,785,000 or 82¢ per common share compared to \$17,338,000 or 70¢ per common share for the year ended March 31, 1980.

An extraordinary gain of \$10,500,000 was recorded on the sale of certain trade marks for southern Africa. Details of this transaction are reported on Page 11 of the Annual Report. Final earnings for the year after the extraordinary gain were \$30,285,000 or \$1.30 per common share.

Carling O'Keefe Breweries of Canada Limited had a satisfactory year reporting increased share of market, sales revenue and earnings. It is difficult to accurately measure industry sales volume growth over the past few years because of recurring brewery closures due to labour problems. However, it is estimated that the average rate of annual increase has been approximately 1.5% and it is projected that this relatively low rate of growth will continue for the foreseeable future. The low rate of industry growth has resulted in intense competition within the industry as any significant increase in sales volume must come from the competitors as increased share of market. The company believes that it has significantly improved its competitive position in the Canadian brewing industry this year by the acquisition of major sports advertising and promotional vehicles. Sports related activities, particularly the televising of games, have become a major promotional vehicle for all brewing companies in North America. The company believes that its increased involvement with these activities will help to increase sales volume in the future.

Increases in beer sales volume, however, will not be without problems for the Corporation, as in several provinces of Canada sales volume is already reaching the practical productive capacity of the brewery. The cost of providing additional capacity in the brewing industry has increased significantly in recent years at a rate well in excess of the general rate of inflation. Accordingly, the Corporation is facing large outlays of capital funds in order to provide the capacity needed in the future. While some of these funds may be provided by long term borrowing, the present high rates of interest mean that much of the financing will have to come from operating earnings.

The Directors are aware of the Shareholders' need for a return on their investment in the form of dividends. However, it is probable that for the next few years dividend payments will have to be restricted to provide the funds necessary to expand the brewing business in order that it may have a successful future.

The year has seen a continuation of past trends with a number of new brands being launched by the brewing industry in Canada. This trend is likely to continue and the company will be competitive in this area by introducing new products whenever it determines that an opportunity exists for a successful brand introduction.

It is anticipated that as a result of the labour contracts signed during the past year the brewing industry and the company should be able to look forward to a period without labour disruptions. It is management's hope that this period can be used to build a basis of mutual understanding which will avoid in future the disruptions which have plagued the industry in recent years.

Carling O'Keefe Breweries of Canada Limited will continue to compete vigorously in the Canadian market place and believes that it will be able to continue to increase share of market, sales volume and earnings despite the intense competition.

Jordan Valley Wines Limited had improved results for the year with increased sales volume, sales revenue and earnings, although the rate of return on investment was still not satisfactory. The sales volume of Canadian produced wines continues to grow, and we believe

that the Canadian wine industry has a promising future if government taxes and other regulations can be applied in such a way that they will not disrupt the industry through unnecessarily high prices compared to imported products or unnecessary restrictions on the procurement of the raw materials necessary to produce the products which the consumer is demanding.

Jordan made progress during the year by introducing new products and reducing costs through the closing of inefficient production facilities. Efforts will continue to be on increasing sales through new products to meet consumer requirements and continued improvement in the quality of the products. Capital spending in the future will be directed towards improving product quality through technological research and development and a viticulture programme which will encourage grape growers to produce better raw materials for the company.

Beamish & Crawford Limited, the Corporation's Irish brewing subsidiary, had another satisfactory year with improved share of market, sales revenue and earnings despite intense competition and the economic situation in Ireland. Although the outlook in the short term would indicate continuing difficulties due to the lack of growth in the economy and high excise duties which result in high selling prices, management is confident that the company will be able to maintain or improve earnings. In the long term the lager segment of the market, which is the segment in which the company primarily participates, is anticipated to grow at a rate substantially in excess of total industry growth which will benefit the company's operations.

Since 1977 the Corporation's major diversification has been Star Oil & Gas Ltd. Considerable effort and resources have been expended to build an oil and gas business which would be a successful alternative to the alcoholic beverage business. The Corporation followed a conservative investment policy which has been successful in developing additional reserves of natural gas and oil. Despite delays in bringing newly discovered gas reserves to market due to an excess supply of natural gas in Canada, the earnings and the value of Star Oil & Gas Ltd. increased each year. Management was committed to expanding the investment in the oil and gas business in Canada in the expectation of making it a major segment of the Corporation's business in the future.

In last year's Annual Report to Shareholders, considerable information on the oil and gas operations was provided with the warning that the industry in Canada was highly sensitive to government regulations and that the immediate future of the industry was particularly dependent upon governmental decisions related to the export of natural gas and to the price that the producer would receive for oil and gas production.

Unfortunately, plans for Star Oil & Gas Ltd. have been disrupted by the National Energy Program which was introduced by the Government of Canada in October 1980. The proposed changes in the basis of taxation of the petroleum industry and the indicated future pricing of the products have severely curtailed the anticipated earnings and cash flow of the industry in Canada. Star Oil & Gas Ltd. is deemed to be foreign controlled under the laws of Canada, and will not be eligible for the proposed incentive grants to encourage the finding of new reserves of oil and gas. As a result of the proposed Program the activities of Star Oil & Gas Ltd. were cut back subsequent to October 1980, and spending on exploration for and development of reserves was significantly reduced. The extent of Star's future activities in Canada will depend upon the final settlement of the revenue sharing negotiations which are presently being carried out between the Government of Canada and the governments of the producing provinces and the final form of the National Energy Program.

In recent years Star has been reinvesting all the cash flow generated from its operations together with additional funds from other corporate resources. While at the present time it is the intention to remain in the oil and gas industry in Canada, the reduced cash flow to the company and the inadequate return on investment will result in a reduction in the level of spending in the search for new reserves of oil

and gas. Canadian activities will be restricted to those which will provide a return on investment commensurate with the risk involved.

Pending a resolution of the situation in Canada, increased emphasis will be placed on attempting to build an oil and gas business in the United States where selling prices are such that the company believes it can obtain a much higher return on investment than would be possible in Canada. The company is planning to approach its activities in the United States in a similar manner to that which had been successful in Canada. However, the future of the Corporation's involvement in the oil and gas business will, to a large extent, be determined by the governmental agreements relating to the oil and gas industry.

BOARD OF DIRECTORS

The Directors were saddened to learn of the death of The Honourable Jean Lesage on December 12, 1980. Mr. Lesage was appointed to the Board of Directors in July 1975 and provided invaluable counsel to the Corporation and Le Club de Hockey Les Nordiques Inc. of which he was Chairman. The Directors wish to record their acknowledgement of his contribution to the success of the Corporation during the years he was a Director.

In September 1980 in accordance with the Corporation's policy on age limitation Mr. John C. Lockwood retired as Chairman of the Board and Mr. Noah Torno retired as a Director of the Corporation.

Mr. Lockwood served as Chairman of the Board since July 1975 and successfully guided the Corporation through a period of significant change. The Directors wish to record their gratitude to Mr. Lockwood for his leadership during his term of office and are pleased that he will remain as a Director of the Corporation so that his wise counsel will continue to be available. The Board also wishes to thank Mr. Torno for his service to the Corporation during the years he was a Director and particularly for his service to Jordan Valley Wines Limited of which he served as President and Chairman for several years.

In September 1980 The Honourable Alastair Gillespie was appointed to the Board of Directors to replace Mr. Torno and was elected Chairman of the Board. In April 1981 Mr. I. Loyola Matte was appointed to the Board to replace The Honourable Jean Lesage.

OUTLOOK

While competition continues to intensify and confrontation between the various levels of government in Canada results in an uncertain future, inflation is still the single most pressing problem we face. A depressed level of business activity has made it difficult to recover rising material, labour and interest costs. In fact, at the present time annual price increases in the brewing industry are considerably in excess of the entire industry's annual profits. Despite these problems, management intends to continue its policy of providing a steady growth in earnings and dividends while investing sufficiently in marketing and production facilities to ensure the long term success of the Corporation.

Many problems still exist both for the industries in which the Corporation operates and for its own operations within these industries. However, management believes that the improvements which have been made in the past few years will help to ensure continued progress.

APPRECIATION

On behalf of the Board of Directors we would like to thank our 3,600 employees in Canada and Ireland for their dedication and untiring efforts on behalf of the Corporation during the past year. It is only through their hard work that the progress which has been made by the Corporation has been possible.

We would also like to express our gratitude to our approximately 25,600 Shareholders, of whom 20,600 are Canadian, for their continued support.

May 20, 1981

Alastair Gillespie
Chairman of the Board

S. Roderick McInnes
President and Chief Executive Officer

Review of Operations

BREWING OPERATIONS – CANADA

Carling O'Keefe Breweries of Canada Limited again reported improved earnings over those of the prior year. Gains were achieved despite a sales volume decline which resulted from the serious labour difficulties which closed the brewing industry in British Columbia for approximately two months and in Alberta for approximately seven months.

The adverse impact on sales revenue of these work stoppages was offset by volume improvements in other provinces and by needed price increases authorized by provincial government authorities.

Market share comparisons with last year on a national basis are subject to some distortion because of the impact of work stoppages which occurred in some provinces in both the 1981 and 1980 fiscal years. However, the company's share of the total Canadian market has shown a modest increase over last year due primarily to gains in British Columbia, Quebec and Manitoba partially offset by further share erosion in Ontario.

The cost of raw materials, salaries and wages and other manufacturing expenses and overhead items all increased under inflationary pressures during the year. The price of malting barley, a major ingredient which had increased approximately 40% during the 1980 fiscal year, was raised a further 25% in fiscal 1981 by the Canadian Wheat Board.

With annual growth in the Canadian beer industry at only 1.5%, any material volume gains must be achieved through increased share of market. This has led to increased emphasis on product segmentation within the industry with many new brand introductions in the regular, light beer and malt liquor categories and major increases in marketing costs were required to meet intense competitive pressures.

Carling O'Keefe Breweries has continued strong marketing support behind its major brands in all provinces including the new ales introduced last year, Buckeye in Ontario and Rallye in Quebec. In addition, the Carlsberg brand has been extended into the light beer and premium malt liquor categories through the introduction of Carlsberg Light in Ontario and Quebec and Carlsberg Gold in Ontario.

The advantages of sports television properties as a means of marketing brewery products have been recognized by major brewing companies for some time. During the year Carling O'Keefe Breweries was successful in obtaining the Canadian Football League television rights for three years and the national television and other promotional rights to the Montreal Expos baseball team for a five year period.

During the year Les Nordiques, the company's franchise in the National Hockey League, completed its second season successfully, reaching the playoffs and attracting sellout crowds to the expanded Colisée in Quebec City. The past season for the Toronto Argonauts, the company's team in the Canadian Football League, was a disappointing one both in performance on the field and game attendance. The team's management is optimistic that a number of changes already made will lead to a stronger representation in the coming season.

The past two years have been difficult ones for the company in the area of labour relations with long periods of negotiations and with serious work stoppages occurring in both years in Western Canada. However, all the company's brewing operations are now covered by new multi-year agreements expiring on December 31, 1982 or later.

During the year the company completed its previously announced plan to consolidate production in Saskatchewan from its two small underutilized breweries in Regina and Saskatoon into an expanded Saskatoon plant. The Regina plant was sold during the year. The company's brewing production is now concentrated in seven efficient breweries, one in each of the four Western provinces, as well as in Ontario, Quebec and Newfoundland. Because of increased market demand, the production capacities of the St. John's and Montreal breweries were further expanded during the year and the need for major expansion in Calgary and Vancouver is indicated if current market trends continue.

BREWING OPERATIONS—CANADA

FINANCIAL YEARS ENDED	MARCH 31 1981	MARCH 31 1980	% INCREASE (DECREASE)
Sales—hectolitres	4,756,000	4,940,000	(3.7)
Sales	$435,721,000	$393,281,000	10.8
Earnings before interest and income taxes	$ 23,078,000	$ 20,834,000	10.8
Earnings—per hectolitre	$4.85	$4.22	14.9

WINE OPERATIONS

Jordan Valley Wines Limited reported improved results for the year with increased sales volume, sales revenue and earnings compared with those of the prior year.

The total wine market in Canada continued to grow during the year and sales volume increased by approximately 5%. The growth in industry sales volume was helped by the work stoppages in the brewing industry in Western Canada, but was adversely affected by changes in the rate and method of application of excise taxes. As an example, the excise tax on fortified wines increased in May 1980 from 12¢ per litre to 66¢ per litre, and the industry sales for these products declined by 25% before the tax was reduced to 27¢ per litre in October. Industry sales were also adversely affected by poor performance in Ontario which accounts for 33% of the national market and which showed a growth of less than 2% during the year. The share of the total market held by Canadian produced products increased to approximately 48% which reflects the growing acceptance by the Canadian consumer of domestically produced wines.

Table wines continued to be the major growth segment of the total wine market and increased at a rate in excess of 10%, with white table wines accounting for the majority of the increase. The continued trend to white wine is causing a significant industry problem in obtaining a balanced supply of premium grapes. This is a problem which the growers and the wineries will have to face together in the coming years.

Sales volume of Jordan increased during the year by 6.4%. The sales volume increase reflected strong growth in advertised brands, new product activities and the positive impact of the brewery work stoppages in Western Canada. The sales for the year were adversely affected by a labour dispute which closed the Surrey, British Columbia winery for five weeks during the first quarter of the fiscal year.

The major advertised brands of Toscano and Maria Christina showed substantial growth and share penetration in the key table wine market. Both were among the fastest growing brands of white wine in Ontario. Falkenberg, a German-style white wine was launched in

British Columbia in the third quarter of the fiscal year and performed to expectations with growing share levels, in part due to the brand being listed on a significant number of licensees' wine lists. Within the second largest segment of the market, sparkling wine, the company also showed improvement over past years' levels. Spumante Bambino recorded significant share gains in British Columbia, Alberta and Ontario as consumers found the product to be of high quality, light and refreshing. In the second quarter of the fiscal year a sophisticated trio of red, white and rosé sparkling wines were launched in Ontario under the brand name Prince de Mousseux and are showing good volume growth at an early stage of development.

Sales revenue increased as a result of the higher volumes, increased excise taxes, the continuing trend to higher priced products and price increases necessary to cover the increased costs of raw materials, employee compensation, manufacturing overheads and distribution.

The number of retail stores in Ontario was restricted during the year as a result of the provincial government's freeze on the issue of new licenses for mini-stores, and remained at 28 stores. However, as a result of cost control and store relocation, the retail store operations reported increased earnings over the previous year.

During the year a major study was conducted on production facilities. This resulted in the closure of the wineries located at Moose Jaw, Saskatchewan,and Selkirk, Manitoba. The production from these wineries was transferred to the wineries at Surrey, British Columbia; Calgary, Alberta; and St. Catharines, Ontario.

WINE OPERATIONS

FINANCIAL YEARS ENDED	MARCH 31 1981	MARCH 31 1980	% INCREASE (DECREASE)
Sales—litres	22,277,000	20,942,000	6.4
Sales	$ 44,021,000	$ 35,873,000	22.7
*Earnings before interest and income taxes	$ 1,512,000	$ 1,434,000	5.4
*Earnings—per litre	$0.07	$0.07	—

*Carling O'Keefe Limited share

OIL AND GAS OPERATIONS

Star Oil & Gas Ltd. had a satisfactory year reporting increased sales revenue and earnings. The land acquisition and drilling programme for the year emphasized development of oil and natural gas production.

As a result of the drilling programme in Canada, the company developed new oil production at Mitsue in Alberta and at Parkman and Crystal Hill in Saskatchewan. New gas reserves and production were developed at Heart Lake in Alberta where the company now has an interest in 10 producing gas wells and is involved in an ongoing programme which should add reserves and production in the coming year.

In the United States, additional oil and natural gas reserves were established in Oklahoma and Texas. The company now has an interest in 28 producing oil and natural gas wells in the United States.

The company has a 2.5% interest in the Suffield 'C' Block in Alberta. The initial exploration programme which consisted of 200 miles of seismic work and the drilling of 67 wells has been completed. The Alberta Energy Company is now the operator of the project and will be doing further drilling on several promising oil and gas discoveries made by the group.

DRILLING ACTIVITY

	1981			1980		
	Working Interest Wells			Working Interest Wells		
	Total	Star Share	Royalty Interest Wells*	Total	Star Share	Royalty Interest Wells*
CANADA						
Gas	18	5.3	13	9	3.8	14
Oil	7	4.7	5	14	6.6	2
Dual zone oil and gas	—	—	3	1	.5	—
Dry and abandoned	6	1.9	29	14	2.9	5
	31	11.9	50	38	13.8	21
SUFFIELD 'C' BLOCK						
Gas	1	—	—	6	.2	—
Oil	4	.1	—	4	.1	—
Dual zone oil and gas	—	—	—	2	.1	—
Dry and abandoned	23	.6	—	27	.6	—
	28	.7	—	39	1.0	—
UNITED STATES						
Gas	4	.6	—	15	1.3	—
Oil	2	.4	—	3	.3	1
Dual zone oil and gas	1	.1	—	—	—	—
Dry and abandoned	2	.2	—	6	.6	1
	9	1.3	—	24	2.2	2

*Drilled at no cost to Star under agreements with other companies.

During the year Star acquired an interest in 16,108 gross hectares of potential oil and gas land in Canada and an interest in 3,823 gross hectares of potential oil and gas land in the United States.

As at March 31, 1981 Star held an interest in gross and net hectares of land as follows:

	Proved		
	Gross	Net	Royalty*
CANADA			
Saskatchewan	32,933	10,714	64
Alberta	39,779	12,657	14,976
British Columbia	2,447	836	1,113
East Coast offshore	—	—	—
UNITED STATES	3,440	388	—
AUSTRALIA OFFSHORE	—	—	—

	Unproved		
	Gross	Net	Royalty*
CANADA			
Saskatchewan	31,949	19,558	—
Alberta	187,461	48,839	3,113
British Columbia	41,498	11,637	268
East Coast offshore	—	—	74,260
UNITED STATES	16,154	3,473	—
AUSTRALIA OFFSHORE	2,012,142	281,700	—

*The company is paid a royalty of from 3% to 15% of production income from producing wells drilled by other companies at no cost to Star.

The company has a 14% interest in two permits, WA-102-P and WA-110-P, offshore Western Australia. Permit WA-102-P contains the Tantabiddi Structure which will be drilled as soon as the operator has secured a suitable drillship. The company has reached tentative agreement with a third party who will pay all of Star's drilling costs of the Tantabiddi well in return for 50% of the company's interest in Permit WA-102-P.

The results of the year's activity on gross proved and probable reserves prior to royalties as established by McDaniel & Associates Consultants Ltd., an independent engineering company specializing in oil and gas evaluations, are reported on Page 28 of the Annual Report.

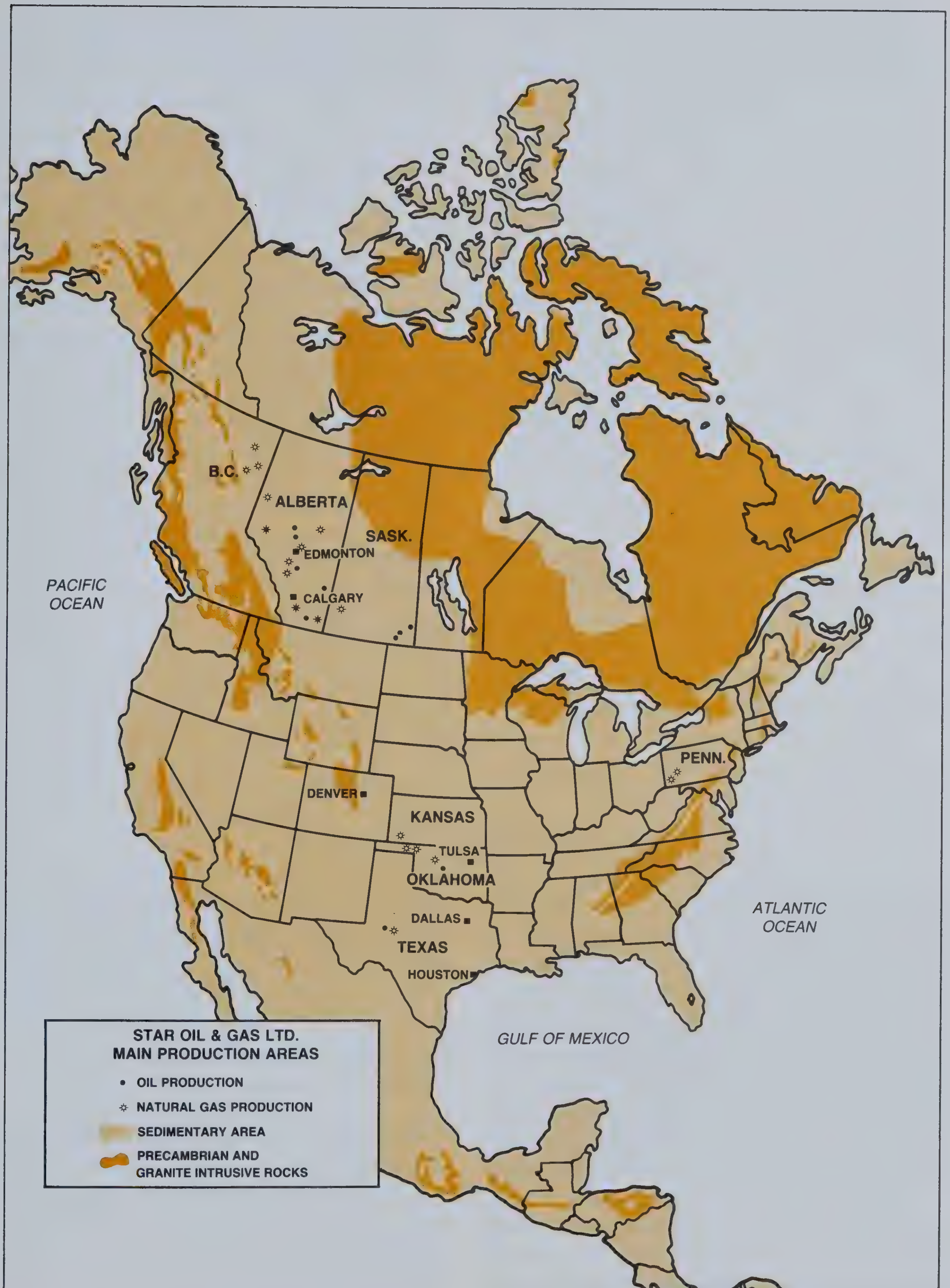
On October 28, 1980 the Government of Canada announced its new budget and National Energy Program which, when approved, will be effective as of January 1, 1981. Both of these programmes have a serious negative impact on the Canadian petroleum industry by reducing cash flow and net income by an estimated 25% to 35% primarily as a result of the following features:

1. An 8% tax on gross production income, less cost of production. This tax is non-deductible in calculating federal income taxes.

2. Removal of earned depletion on provincial lands in calculation of federal income taxes.

3. Price schedule for oil and natural gas with annual increases for the industry, which in the near term are less than inflation.

The 8% petroleum and gas revenue tax payable by Star for the year ended March 31, 1981 was $345,000 and it is estimated that it will be approximately $1,250,000 in 1982. In addition, as a result of the other budget changes a sub-


B.C.
ALBERTA
SASK.
EDMONTON
CALGARY
PACIFIC OCEAN
DENVER
KANSAS
TULSA
OKLAHOMA
DALLAS
TEXAS
HOUSTON
PENN.
ATLANTIC OCEAN
GULF OF MEXICO
STAR OIL & GAS LTD.
MAIN PRODUCTION AREAS
OIL PRODUCTION
NATURAL GAS PRODUCTION
SEDIMENTARY AREA
PRECAMBRIAN AND GRANITE INTRUSIVE ROCKS

stantial increase in income tax will occur in the years ending March 31, 1982 and beyond, which will further reduce cash flow and net earnings.

Many oil and natural gas projects in Canada are now uneconomic as a result of the budget, the National Energy Program, high provincial crown royalty rates and the lack of market for new natural gas. Total capital expenditures by Star for the year were reduced by 26% from last year and the company is substantially reducing its level of activity in Canada in the coming year until such time as the two levels of government modify the tax and royalty structure.

Pan-Alberta Gas has received all the necessary approvals to export up to 28,000 10^3m^3 (1 Bcf) per day of gas to the United States. Pipeline construction on Phase 1, the 'pre-build' portion of the Alaska Highway Gas Pipeline, is underway. The western portion to California will be completed by November 1, 1981 at which time the company will place two gas projects on production. The eastern line will be completed by November 1, 1982 and the company anticipates placing four additional gas projects on production at that time.

In the United States, the federal government is making every effort to increase activity in the petroleum industry by the decontrol of oil prices and the gradual decontrol of natural gas prices, combined with a reasonable tax treatment. These actions, together with lower royalties and a ready market for both oil and natural gas, have created an attractive economic environment which enables a successful company to achieve a satisfactory rate of return on capital invested. Star plans to increase its land acquisition and drilling activity substantially in the United States in the coming year. The main areas of activity will be in Montana, Oklahoma and Texas and it is anticipated that the company will participate in at least 40 wells during the year.

OIL AND GAS OPERATIONS

FINANCIAL YEARS ENDED	MARCH 31 1981	MARCH 31 1980	% INCREASE (DECREASE)
Sales—Gas (10^3m^3)	139,000	141,000	(1.4)
—Oil and other (m^3)	82,000	82,000	—
Sales	$12,138,000	$ 9,640,000	25.9
Earnings before interest and income taxes	$ 6,074,000	$ 4,720,000	28.7

BREWING OPERATIONS—IRELAND

Despite a slight decline in sales volume, Beamish & Crawford Limited had a satisfactory year with increased sales revenue and earnings before the foreign exchange adjustment on translation of the accounts to Canadian dollars.

Industry sales volume during the year declined by 2.1% as sales were adversely affected by the lack of real growth in the Irish economy during the period and substantial excise duty increases in the National Budgets of February 1980 and January 1981 which resulted in higher selling prices. The company's sales volume, which is primarily in the ale and lager segment of the market, held up well in the face of industry problems and declined by only 1.3%.

During the year the brewing industry received two price increases, one in October 1980 for all products and a further increase for bottle products only in January 1981. The effect of these price increases and the passing on to the consumer of the substantial excise duty increases contributed to the increased sales revenue but depressed sales volume.

Marketing support for all products was maintained during the year and in November 1980 Colt 45 malt liquor was launched in the Dublin area. This product has had a good initial response and it is planned to widen distribution in the coming fiscal year.

Major capital expenditures during the year were related to energy conservation projects which will help to reduce costs in the future.

The value of the Irish punt relative to the Canadian dollar declined substantially during the last quarter of the fiscal year and resulted in an exchange loss on translation of the financial statements to Canadian dollars.

BREWING OPERATIONS—IRELAND

FINANCIAL YEARS ENDED	MARCH 31 1981	MARCH 31 1980	% INCREASE (DECREASE)
Sales—hectolitres	235,000	238,000	(1.3)
Sales	$45,468,000	$39,265,000	15.8
Earnings before interest, foreign exchange and income taxes	$ 2,460,000	$ 2,072,000	18.7
Foreign exchange (loss)	$ (1,207,000)	$ (412,000)	*
Earnings before interest and income taxes	$ 1,253,000	$ 1,660,000	(24.5)
Earnings—per hectolitre	$5.33	$6.97	(23.5)

*over 100%

INTERNATIONAL DIVISION

Royalty income from the sale of Carling Black Label in overseas markets where it is produced under license declined during the year by $1,958,000 to $1,738,000. The decline in revenue reflected the sale effective March 31, 1980 of the Carling Black Label trade mark for southern Africa, details of which are set out below. Royalty income from sales in Europe increased by $231,000 or 17.7% reflecting higher royalty rates, which increase in line with selling prices, and improved exchange factors when the pound sterling was converted to Canadian dollars. Sales volume in this market decreased modestly from the prior year reflecting the general volume decline of the brewing industry in these countries due to poor economic conditions.

In the fall of 1979 a reorganization occurred in the alcoholic beverage industry in southern Africa which resulted in a virtual monopoly in the brewing industry. After reviewing the situation, the Directors concluded that a sale of the Carling Black Label and Red Cap trade marks for this area was in the best interest of the Corporation and its Shareholders, and in July 1980 it was announced that the Corporation had finalized a sale agreement for the trade marks effective March 31, 1980. The trade mark rights for these brands in certain countries in southern Africa, primarily for the Republic of South Africa, were sold to Southern Investments NV. The rights for certain other countries in southern Africa, primarily Zimbabwe, were sold to Linser NV. Both of these sales were arms length transactions. Total consideration amounted to Rand 14,500,000 which will be received over a four year period in United States dollars subject to reduction should certain objectives not be achieved. As security for the receipt of these amounts, irrevocable letters of credit for the total amount were received from the North Carolina National Bank. The sale resulted in an extraordinary gain of $10,500,000, details of which are set out in Note 2 to the consolidated financial statements.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

Management prepared the following consolidated financial statements of Carling O'Keefe Limited and is responsible for their integrity and objectivity. The statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on judgments of management.

Management is further responsible for maintaining a system of internal accounting controls, designed to provide reasonable assurance that the books and records reflect the transactions of the Corporation and that its established policies and procedures are carefully followed. The system is continually reviewed for its effectiveness and is augmented by written policies and guidelines, the careful selection and training of qualified personnel, and a strong programme of internal audit.

Price Waterhouse & Co. are appointed by the Shareholders as independent auditors to examine the financial statements of Carling O'Keefe Limited and its subsidiaries and issue reports thereon. Their examinations are conducted in accordance with generally accepted auditing standards and include a review of internal accounting controls and tests of transactions. The Auditors' Report appears on Page 23.

The Board of Directors, through the Audit Committee of the Board, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and for reviewing with Price Waterhouse & Co. the scope of their audit and the accounting principles to be applied in financial reporting. The Audit Committee, which is composed entirely of non-employee Directors, meets regularly with the independent auditors, representatives of management, and the internal auditors to review the activities of each and to ensure that each is properly discharging its responsibilities. To ensure complete independence, Price Waterhouse & Co. have full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of their examination and their opinions on the adequacy of internal accounting controls and the quality of financial reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following analysis and explanatory comments relating to the operations of the Corporation should be read in conjunction with the consolidated financial statements, financial summaries and financial information on operations by segment which are provided elsewhere in this report.

RESULTS OF OPERATIONS

Consolidated earnings attributable to the common shares increased during the period despite work stoppages in the Canadian brewing subsidiary due to industry labour problems. As shown on Page 25 of this report the Canadian brewing subsidiary is the Corporation's principal business segment, contributing 81% of consolidated sales revenue and 72% of operating earnings before interest and income taxes in 1981. The level of contribution has been relatively constant over the three year period.

SALES

Consolidated sales revenue increased by \$59,289,000 or 12.4% in 1981 compared to an increase of \$76,786,000 or 19.1% in 1980 and \$20,126,000 or 5.3% in 1979. Over the period higher unit selling prices accounted for the major portion of the increase in revenue. The per unit selling prices increased sufficiently to recover higher production costs and higher excise and sales taxes. As a result, margins on a per unit basis generally were maintained during the period and helped to partially offset the effect of the industry work stoppages which occurred in the brewing operations in British Columbia and Alberta in 1981 and 1979, and in Manitoba in 1979, which resulted in a net volume decline in those years.

COSTS

Costs increased in all segments of the business reflecting the general rise in cost of materials purchased and employee compensation.

Raw materials and manufacturing costs increased by $15,498,000 or 9.6% in 1981 compared to increases of $25,090,000 or 18.5% in 1980 and a decline of $983,000 or 0.7% in 1979. The increases in 1981 and 1980 are primarily related to higher costs for brewing and packaging material and employee compensation. The cost decrease in 1979 reflected a volume decline, lower malt costs and production efficiencies arising from the consolidation of brewing operations in Ontario which offset unit cost increases experienced during the year.

Marketing and distribution costs increased by $13,744,000 or 11.8% during the year, compared to increases of 16.9% and 16.1% in 1980 and 1979 respectively. Increased distribution costs are primarily related to increased energy costs, employee compensation costs and expanded warehousing and retail store activities. The increase in marketing costs reflects higher unit costs of advertising production and broadcasting as well as increased competition in the brewing industry for specific marketing vehicles, particularly those related to sports activities.

Administrative and general costs increased by $1,313,000 or 5.8% during 1981, compared to increases of 21.4% and 2.6% in 1980 and 1979 respectively. All administrative costs have been subject to increases in line with the general rate of inflation. Costs in 1980 were high as a result of the provision for the Regina brewery closure costs and the write-off of goodwill related to Chalet Wines. Administrative costs in 1979 were lower than expected due to the reversal of certain prior years' cost provisions which were no longer required.

Interest costs increased reflecting additional borrowings and higher interest rates. Foreign exchange primarily reflected the effect of changes in the value of the Canadian dollar relative to the Irish punt on the translation of the financial statements of Beamish & Crawford Limited.

In 1981 a gain of $10,500,000 on the sale of certain trade marks for southern Africa was recorded as an extraordinary item. In determining the gain on the sale an imputed interest rate of 20% was applied to the estimated receivable which will be received over a four year period. The resulting discount will be included in investment and other income over the period as earned. In 1979 a gain on the sale of a surplus winery in Victoria, British Columbia was recorded as an extraordinary item.

It should be noted that results of operations from one quarter to the next are not comparable and are not an indication of annual results due to the seasonal nature of the alcoholic beverage industry, which traditionally has greater sales and earnings in the summer months.

FINANCIAL POSITION

WORKING CAPITAL AND DEBT

Consolidated working capital at March 31, 1981 was $39,783,000 an increase of $348,000 during the year. Decreases in consolidated working capital of $1,032,000 and $8,972,000 occurred in the two preceding years respectively. The current ratio at March 31, 1981 was 1.5:1, a slight decline from 1.6:1 at March 31, 1980 and 1.8:1 at March 31, 1979.

A comparative consolidated statement of changes in financial position appears on Page 18 of this report.

Working capital from operations during the three year period was primarily utilized in the acquisition of property, plant and equipment. Capital expenditures for the current year were $26,487,000 compared to $25,391,000 in 1980 and $26,533,000 in 1979. The major capital expenditures during the period were in the Canadian brewing operations as productive capacity was added at the breweries in Montreal, Quebec; Saskatoon, Saskatchewan; and St. John's, Newfoundland. Expenditures on oil and gas activities which had been a major item in 1979 and 1980 declined in 1981 as a result of the proposed National Energy Program of the Government of Canada which, if implemented, will reduce future profitability and increase uncertainty surrounding oil and gas activities in Canada. Details of capital expenditures by business segment are provided on Page 25 of this report.

The Corporation anticipates that consolidated capital expenditures for the 1982 fiscal year will approximate $36,000,000. The major increase from the levels of capital spending in 1981 will relate to the anticipated need for expansion of plant capacity at the breweries located in Vancouver, British Columbia and Calgary, Alberta. In view of the current high interest rates each proposed capital expenditure will be subjected

to an intensive review to ensure that it is acceptable and will produce an adequate return on investment. The 1982 capital programme is expected to be financed out of working capital from operations.

During the period the Corporation purchased the minority interest in Jordan Valley Wines Limited, the National Hockey League franchise for Quebec City and the majority interest in the Toronto Argonaut Football Club.

The Corporation reduced its long term debt by meeting its obligations under the terms of the debenture covenants and the term loan agreement, and also by purchasing Series B preference shares each year for cancellation. Dividends were paid on the preference shares in accordance with their terms and dividends on common shares were reinstated commencing January 1, 1979 at the rate of 2.5¢ per common share per quarter and were increased on July 1, 1980 to the present level of 5¢ per quarter.

LIQUIDITY

The Corporation's cash requirements have exceeded the funds generated from operations due to the level of capital expenditures and to the increases in accounts receivable and inventories over the period. Accounts receivable have increased primarily due to higher selling prices, and inventories have increased due to higher unit costs for materials and labour. Accounts payable and accrued liabilities have increased due to increased unit costs for materials, vacation pay accruals and in 1981 the accrual for the purchase of the minority interest in Jordan Valley Wines Limited.

Operating lines of credit have been arranged which are considered to be adequate to meet the anticipated working capital requirements of the Corporation and each of its subsidiaries for the coming year. While it is not the intention of the Corporation at the present time to issue additional long term debt, this would be possible under the terms of the trust indenture of the existing sinking fund debentures.

The continued reduction in long term debt during the year has reduced the long term debt to only 8% of total shareholders' equity compared to 11% in 1980 and 13% in 1979. This indicates that there is ample room for increasing long term debt for the financing of an acquisition or capital expenditures or if interest rates are such that the issuing of long term debt is considered desirable.

The Corporation's cash flow during a year follows the seasonality of the brewing operations which have higher sales in the summer months and in the December holiday season. During the winter period maintenance programmes and expansion projects are carried out to coincide with reduced brewing activities. In addition, there is a cash flow fluctuation within each month due to the timing of receipts and payments which gives a relatively favourable cash position at each month end.

IMPACT OF INFLATION

The Corporation's operations are affected by inflation particularly when replacing assets used in the normal course of business. The Corporation's production facilities were acquired over a number of years and any adjustment to reflect current replacement cost would result in a significant increase in the net values of property, plant and equipment and a corresponding increase in the depreciation charge for the year. Inventories and cost of products sold would also increase if current replacement costs were used.

The Canadian Institute of Chartered Accountants (C.I.C.A.) issued an exposure draft in December 1979 which proposed that supplementary information be presented in the financial statements detailing the inflationary effect on the cost of a corporation's operations. These proposals differed from either of the disclosure requirements set forth by the United States Financial Accounting Standards Board or the Institute of Chartered Accountants in England and Wales.

The C.I.C.A. is currently analyzing the numerous comments received in response to its exposure draft before finalizing its presentation on current cost accounting. In view of the uncertainty of the final C.I.C.A. position and the fact that the Corporation is exempt from the Securities and Exchange Commission disclosure requirements regarding Financial Reporting and Changing Prices, the Corporation is continuing to review its alternatives in order to determine the most informative basis of presentation.

CARLING O'KEEFE LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

CONSOLIDATED STATEMENT OF EARNINGS

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1981	1980	1979
INCOME			
Sales	$537,348	$478,059	$401,273
Excise and sales taxes	177,814	152,827	129,884
	359,534	325,232	271,389
Investment and other income	7,566	6,579	6,241
	367,100	331,811	277,630
COSTS			
Raw materials and manufacturing	176,049	160,551	135,461
Marketing and distribution	130,058	116,314	99,533
Administrative and general	23,948	22,635	18,641
Interest on long term debt	1,694	1,827	1,787
Other interest	1,404	812	217
Foreign exchange	1,068	412	(758)
Minority interest	113	41	64
	334,334	302,592	254,945
EARNINGS BEFORE INCOME TAXES	32,766	29,219	22,685
Income taxes (Note 7)			
Current	8,016	9,057	5,848
Deferred	4,965	2,824	3,225
	12,981	11,881	9,073
EARNINGS FROM OPERATIONS BEFORE EXTRAORDINARY ITEMS	19,785	17,338	13,612
Extraordinary items			
Gain on sale of trade marks $13,300 less income taxes $2,800 (Note 2)	10,500	—	—
Gain on sale of winery assets $351 less minority interest	—	—	322
EARNINGS FOR THE YEAR	$ 30,285	$ 17,338	$ 13,934
EARNINGS PER COMMON SHARE FOR THE YEAR			
Preference share dividends	$ (2,062)	$ (2,077)	$ (2,091)
Earnings for the year applicable to 21,762,295 common shares outstanding	$ 28,223	$ 15,261	$ 11,843
Before extraordinary items	82¢	70¢	53¢
After extraordinary items	$1.30	70¢	54¢

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ASSETS

	MARCH 31 1981	MARCH 31 1980
CURRENT ASSETS		
Cash and short term deposits	$ 7,637	$ 8,855
Accounts receivable	36,863	29,740
Receivable from sale of trade marks (Note 2)	4,291	—
Mortgage receivable	—	6,885
Inventories		
Beverage products, finished and in process	37,668	34,959
Materials and supplies	13,033	11,463
Containers	12,971	8,435
	63,672	54,857
Prepaid expenses	5,036	3,521
Total current assets	117,499	103,858
PROPERTY, PLANT AND EQUIPMENT, AT COST		
Land	6,785	6,338
Buildings	70,754	69,128
Machinery and equipment	110,016	102,621
Motor vehicles	14,356	13,197
Oil and gas assets (Note 1)	66,414	57,674
Leasehold improvements	2,418	1,656
	270,743	250,614
Less accumulated depreciation and depletion	108,869	102,767
	161,874	147,847
OTHER ASSETS, AT COST OR AMORTIZED COST		
Sports franchises, less amortization $648 (1980—$324)	12,356	12,680
Mortgages and long term receivables	6,517	203
Deferred charges and other investments	6,467	4,440
Cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition, less amortization $151 (1980—$116) (Note 3)	12,785	11,805
	38,125	29,128
	$317,498	$280,833

APPROVED BY THE BOARD:

ALASTAIR GILLESPIE, Director

LOUISE B. VAILLANCOURT, Director

EFE LIMITED

ALANCE SHEET
F DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY

	MARCH 31 1981	MARCH 31 1980
CURRENT LIABILITIES		
Bank indebtedness and notes payable	$ 11,387	$ 7,128
Accounts payable and accrued liabilities	51,349	43,891
Income taxes	3,155	3,186
Other taxes	10,222	9,156
Dividends payable	1,603	1,062
Total current liabilities	77,716	64,423
LONG TERM DEBT (NOTE 4)		
Sinking fund debentures		
Series B 4¼% due January 15, 1981	—	800
Series C 5% due January 15, 1983	1,200	1,800
Series D 5½% due April 1, 1986	3,467	3,819
Series E 5½% due April 1, 1989	6,046	7,376
Term bank loan, due March 31, 1985	5,800	6,400
Obligations under capital leases	592	—
	17,105	20,195
Less amount included in current liabilities	2,361	2,000
	14,744	18,195
UNFUNDED PENSIONS (NOTE 5)	882	695
DEFERRED REVENUE UNDER GAS CONTRACTS	715	—
DEFERRED INCOME TAXES	32,209	28,144
MINORITY INTEREST (NOTE 3)	—	1,865
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)		
Authorized		
850,532 preference shares with a par value of $50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	21,687	21,687
416,787 $2.65 cumulative redeemable preference shares, Series B (1980—421,787)	20,839	21,089
21,762,295 common shares	78,357	78,357
	120,883	121,133
Retained earnings	70,349	46,378
Total shareholders' equity	191,232	167,511
	$317,498	$280,833

CARLING O'KEEFE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1981	1980	1979
WORKING CAPITAL WAS INCREASED BY			
Earnings from operations before extraordinary items	$ 19,785	$ 17,338	$ 13,612
Depreciation, depletion and amortization	10,964	10,099	8,944
Deferred income taxes	4,965	2,824	3,225
Other items	(1,764)	800	1,338
Working capital from operations	33,950	31,061	27,119
Sale of trade marks less long term receivable $6,987 and deferred income taxes (Note 2)	2,613	—	—
Sale of winery assets	—	—	1,183
Disposal of property, plant and equipment and other assets	2,219	1,029	1,234
Current portion of mortgage and long term receivable	3,085	6,885	—
Deferred revenue under gas contracts	715	—	—
Obligations under capital leases (net)	498	—	—
	43,080	38,975	29,536
WORKING CAPITAL WAS DECREASED BY			
Additions to property, plant and equipment	26,487	25,391	26,533
Purchase of shares in subsidiary company (Note 3)	2,993	—	—
Cost of National Hockey League franchise (Note 8)	—	6,937	—
Purchase of assets of The Toronto Argonaut Football Club $3,500 plus working capital deficiency $768	—	—	4,268
Additions to other assets	3,178	937	704
Reduction of long term debt	3,510	2,325	3,651
Dividends			
Preference shares	2,062	2,077	2,091
Common shares	4,352	2,176	1,088
Purchase of preference shares	150	164	173
	42,732	40,007	38,508
INCREASE (DECREASE) IN WORKING CAPITAL	348	(1,032)	(8,972)
WORKING CAPITAL AT BEGINNING OF YEAR	39,435	40,467	49,439
WORKING CAPITAL AT END OF YEAR	$ 39,783	$ 39,435	$ 40,467

CARLING O'KEEFE LIMITED

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1981	1980	1979
Balance at beginning of year	$ 46,378	$ 33,207	$ 22,368
Earnings for the year	30,285	17,338	13,934
Excess of par value over cost of preference shares purchased for cancellation	100	86	84
	76,763	50,631	36,386
DIVIDENDS			
Preference			
$2.20 per Series A share and $2.65 per Series B share	2,062	2,077	2,091
Common	4,352	2,176	1,088
Balance at end of year	$ 70,349	$ 46,378	$ 33,207
Dividends per common share	20¢	10¢	5¢

CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL
(IN THOUSANDS OF DOLLARS)

	YEAR ENDED MARCH 31		
	1981	1980	1979
INCREASE (DECREASE) IN CURRENT ASSETS			
Cash and short term deposits	$ (1,218)	$ (72)	$ (8,066)
Accounts receivable	7,123	1,238	1,514
Receivable from sale of trade marks	4,291	—	—
Mortgage receivable	(6,885)	6,885	—
Recoverable income taxes	—	—	(664)
Inventories	8,815	4,798	3,089
Prepaid expenses	1,515	67	132
Total	13,641	12,916	(3,995)
(INCREASE) DECREASE IN CURRENT LIABILITIES			
Bank indebtedness and notes payable	(4,259)	(4,120)	(739)
Accounts payable and accrued liabilities	(7,458)	(8,995)	(3,651)
Income taxes	31	726	452
Other taxes	(1,066)	(1,562)	(499)
Dividends payable	(541)	3	(540)
Total	(13,293)	(13,948)	(4,977)
Increase (decrease) in working capital	$ 348	$ (1,032)	$ (8,972)

CARLING O'KEEFE LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards and with those in the United States, except that the extraordinary items would not have been so classified in the United States.

Principles of Consolidation

The principal operating subsidiaries are listed on Page 32. Purchase accounting has been followed for all acquisitions. For certain subsidiaries acquired prior to April 1, 1974 the excess of the cost of shares over the value of the underlying net tangible assets at the time of acquisition is carried at cost and is not amortized. Intangible assets acquired subsequently and sports franchises are amortized over periods not exceeding forty years.

Foreign Exchange

Foreign currency accounts are translated into Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in earnings.

Inventories

Inventories of beverage products, materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

Property, Plant and Equipment

Depreciation is provided on the straight line basis at the following rates per annum:

Buildings	2½%-6⅔%
Machinery and equipment	6⅔%-10%
Motor vehicles	10%-25%

Oil and gas assets are accounted for on the full cost method, whereby all costs of exploration and development are capitalized and amortized against income using the unit of production method based on proved oil and gas reserves.

Gains or losses on sale or disposal of brewery, winery and significant oil and gas assets are included in earnings.

Other Assets

Deferred charges are primarily payments under employment and promotional rights contracts which are amortized over the life of the respective contracts.

Pensions

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are charged to operations over periods up to fifteen years.

Marketing Costs

Marketing costs, including those related to the introduction of new brands, are charged to operations during the year in relation to sales, and are expensed by the end of the year in which the cost is incurred.

Investment Tax Credits

Net investment tax credits relating to capital expenditures are accounted for as a reduction of income tax expense in the year earned.

2. GAIN ON SALE OF TRADE MARKS

On July 16, 1980, the Corporation finalized the sale of the Carling Black Label and Red Cap trade marks for southern Africa effective March 31, 1980. The total consideration of Rand 14,500,000 is receivable over a four year period subject to reduction should certain objectives not be achieved. In determining the gain on the sale of the trade marks the estimated receivable was reduced to its present value using an imputed interest rate of 20%. The resulting discount of $5,711,000 will be included in investment and other income over the four year period. The consideration has been treated as an eligible capital receipt for taxation purposes.

Analysis of gain on sale of trade marks

Estimated receivable			
Current, less unamortized discount of	$ 827,000		$ 6,313,000
Long term, less unamortized discount of	$4,884,000		6,987,000
			13,300,000
Provision for income taxes			
Current		$ 3,700,000	
Deferred		(900,000)	2,800,000
Gain on sale of trade marks			$10,500,000

Amount still outstanding from sale of trade marks

As at March 31, 1981 the estimated receivable outstanding was:

	Current	Long term
Receivable	$5,001,000	$7,391,000
Unamortized discount	710,000	2,489,000
Net receivable	$4,291,000	$4,902,000

3. PURCHASE OF SHARES IN SUBSIDIARY COMPANY

Under the terms of the 1972 acquisition agreement, effective March 31, 1981 the Corporation acquired for $2,993,000 cash the shares owned by the minority shareholders of Jordan Valley Wines Limited. The transaction increased the cost of shares of subsidiaries in excess of underlying net tangible asset values at acquisition by $1,015,000.

4. LONG TERM DEBT

The term bank loan of $5,800,000 bears interest at ½% over the bank's prime rate and is repayable in varying instalments up to March 31, 1985.

Obligations under capital leases are disclosed in Note 8.

Principal payments on long term debt for the years 1982 through 1986 are as follows:

1982—$2,361,000; 1983—$2,957,000; 1984—$3,927,000; 1985—$2,943,000; 1986—$1,917,000.

5. PENSIONS

The Corporation and its subsidiaries maintain a number of pension plans covering substantially all employees and generally it is the Corporation's policy to fund pensions with independent trustees in accordance with legal requirements. Certain supplementary pensions are unfunded and charged to operations when paid. Based on actuarial valuations, unfunded prior service costs are estimated at $14,600,000 of which $882,000 is vested and has been accrued. The unrecorded unfunded amounts are being charged to operations over periods up to fifteen years as described in Note 1. Total pension expense for the year ended March 31, 1981 was $6,343,000 (1980—$6,488,000; 1979—$4,755,000).

6. CAPITAL STOCK

The Series A and B preference shares are redeemable at the option of the Corporation at $53.00 and $52.50 per share respectively. During the year ended March 31, 1981, 5,000 Series B shares were purchased on the open market for cancellation (1980—5,000; 1979—5,140).

Rothmans Investments Limited, a wholly owned subsidiary of Rothmans of Pall Mall Canada Limited, is the owner of record of 50.1% of the Corporation's common shares.

7. INCOME TAXES

The difference between a basic income tax rate and the effective income tax rate based on income tax legislation is accounted for as follows:

	1981	1980	1979
Basic rate	50%	50%	49%
Income taxes at basic rate	$16,383,000	$14,610,000	$11,115,000
Incentives	(3,315,000)	(2,857,000)	(1,947,000)
Rate difference on Irish earnings	(810,000)	(977,000)	(401,000)
Other—net	723,000	1,105,000	306,000
Income taxes—consolidated statement of earnings	$12,981,000	$11,881,000	$ 9,073,000
Effective income tax rate	40%	40%	40%

Incentives include resource and depletion allowances net of royalties, inventory allowances, manufacturing and processing credits and investment tax credits.

Deferred income taxes primarily reflect timing differences between accounting and tax depreciation.

8. LEASES, COMMITMENTS AND CONTINGENT LIABILITIES

Commitments under operating lease obligations relate to leases for sports facilities, warehouses, retail stores and offices. Containers and equipment leased under capital leases are included in their respective categories and will be amortized accordingly. The following table summarizes the minimum rental payments due after March 31, 1981.

Year ending March 31	Capital leases	Operating leases	Total
1982	$ 170,000	$ 2,869,000	$ 3,039,000
1983	170,000	2,449,000	2,619,000
1984	170,000	2,093,000	2,263,000
1985	170,000	1,590,000	1,760,000
1986	128,000	1,454,000	1,582,000
Thereafter to 1996	—	8,232,000	8,232,000
Total minimum rental payments	808,000	$18,687,000	$19,495,000
Less: Imputed interest	216,000		
Obligation under capital leases	$ 592,000		

Capital expenditures for 1982 are expected to aggregate $36,000,000.

Under an agreement with The United Breweries Limited of Copenhagen, Denmark, the Corporation and its affiliates have the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trade marks in Canada and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

On June 22, 1979 Le Club de Hockey Les Nordiques, Inc. (Club) was granted a National Hockey League (NHL) franchise for Quebec City at a cost of $6,937,000. The Club and the other teams which were granted franchises at that time were required to indemnify the NHL and its member teams from all claims arising from the 1979 expansion and granted a security interest in their respective assets in favour of the NHL and its member teams to secure this commitment.

There are a number of outstanding claims and legal actions involving the Corporation. In the opinion of counsel, the outcome of these matters should have no material effect on the Corporation's financial position.

9. OIL AND GAS OPERATIONS

The following information relating to the Corporation's oil and gas producing activities is presented in compliance with the disclosure requirements of the United States Securities and Exchange Commission.

The aggregate capitalized cost and accumulated depletion related to oil and gas properties, of which at least 92% was located in Canada as at March 31, were:

	1981	1980	1979
Proved and unproved properties	$66,414,000	$57,674,000	$45,771,000
Less accumulated depletion	11,576,000	9,248,000	7,256,000
	$54,838,000	$48,426,000	$38,515,000
Costs incurred in oil and gas activities			
Capitalized			
Property acquisition costs	$ 2,094,000	$ 2,110,000	$ 4,062,000
Exploration costs	2,376,000	3,746,000	4,959,000
Development costs	4,294,000	6,071,000	5,286,000
	$ 8,764,000	$11,927,000	$14,307,000

	1981	1980	1979
Expensed			
Production costs	$ 3,131,000	$ 2,282,000	$ 1,464,000
Depletion expenses	2,328,000	2,001,000	1,317,000
	$ 5,459,000	$ 4,283,000	$ 2,781,000
Revenues from oil and gas properties, net of royalties and production costs	$ 9,007,000	$ 7,358,000	$ 5,691,000

10. OTHER

The information on continuing operations by segment is presented on Page 25.

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

May 20, 1981

Auditors' Report

To the Shareholders of Carling O'Keefe Limited:

We have examined the consolidated balance sheet of Carling O'Keefe Limited as at March 31, 1981 and 1980 and the consolidated statements of earnings, changes in financial position, retained earnings and changes in working capital for each of the three years in the period ended March 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the results of operations and changes in financial position of the Corporation for each of the three years in the period ended March 31, 1981 and its financial position as at March 31, 1981 and 1980, in accordance with generally accepted accounting principles consistently applied.

Price Waterhouse + Co.
Chartered Accountants

LINES OF BUSINESS

Carling O'Keefe Limited, through its subsidiaries, manufactures and sells brewery and wine products in Canada and brewery products in Ireland. It also owns a producing oil and gas company which operates in Canada and the United States. All subsidiaries are now wholly owned including Jordan Valley Wines Limited whose outstanding minority shareholdings were acquired effective March 31, 1981.

Carling O'Keefe Breweries of Canada Limited is one of three major brewing companies who together account for approximately 97% of all Canadian beer sales. The company has 2,950 employees and operates seven breweries in Canada with one plant in each of the Provinces of Newfoundland, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, having a total annual brewing capacity of approximately 5,430,000 hectolitres. Beer is distributed by the brewers directly to retail outlets except in the Province of Quebec where the company has a distribution system consisting of independent distributors and company branches. Principal brands are O'Keefe Ale, Old Vienna, Carlsberg, Carling Black Label, O'Keefe Extra Old Stock, Colt 45 and Trilight. The company owns Le Club de Hockey Les Nordiques which operates the National Hockey League team in Quebec City and the Argonaut Football Club which operates the Canadian Football League team in Toronto.

Jordan Valley Wines Limited sells in all Provinces and Territories of Canada, has 300 employees and operates four wineries with a combined storage capacity of approximately 515,000 hectolitres. One winery is located in each of the Provinces of Alberta and British Columbia with two wineries in the Province of Ontario. With the exception of sales through 28 company operated retail stores in Ontario, all sales are made through outlets operated by the Provincial Liquor Boards. The company uses two trading styles, Jordan and Ste-Michelle.

Star Oil & Gas Ltd. is engaged in the exploration for and the development and production of oil and gas in Canada and the United States and has 20 employees. The estimated proved developed and undeveloped gross crude oil and natural gas liquids and natural gas reserves before royalties at March 31, 1981 were 932,000 cubic metres and 5,143,000,000 cubic metres respectively. These are primarily located in the Provinces of Alberta and Saskatchewan.

Beamish & Crawford Limited has 320 employees and operates a brewery in Cork, Republic of Ireland with an annual brewing capacity of 290,000 hectolitres. The Irish market is dominated by one major brewer who accounts for approximately 90% of the total industry with the remaining market shared by Beamish & Crawford Limited and one other brewer. Beer is distributed either through independent distributors or directly to retail outlets. Principal brands are Carling Black Label, Carlsberg and Bass.

Other income is derived from investments and from royalties under a licensing arrangement for the production and sale of Carling Black Label. Certain trade marks in southern Africa were sold effective March 31, 1980, and the resulting portion of the discount on the long term receivable is included in investment income.

The Corporation is deemed to be foreign controlled under the Foreign Investment Review Act. Accordingly, any acquisitions the Corporation may wish to make in Canada must receive governmental approval and the Corporation is not eligible for any of the oil and gas incentives proposed under the National Energy Program of the Government of Canada.

FIVE YEAR FINANCIAL SUMMARY

(IN THOUSANDS OF DOLLARS)

INFORMATION ON CONTINUING OPERATIONS BY SEGMENT

	1981	1980	1979	1978	1977
SALES					
Beer—Canada	$435,721	$393,281	$329,074	$317,322	$304,797
—Ireland	45,468	39,265	31,519	25,123	18,936
Wine	44,021	35,873	33,525	31,904	29,323
Oil and gas	12,138	9,640	7,155	6,798	6,133
Consolidated	$537,348	$478,059	$401,273	$381,147	$359,189
EARNINGS					
Beer—Canada	$ 23,078	$ 20,834	$ 12,952	$ 12,627	$ 6,816
—Ireland—Operations	2,460	2,072	1,776	906	244
Foreign exchange	(1,207)	(412)	758	678	(149)
Wine	1,512	1,434	2,166	2,383	390
Oil and gas	6,074	4,720	3,816	4,179	3,948
	31,917	28,648	21,468	20,773	11,249
Corporate income (expense)—net	3,947	3,210	3,221	1,761	(234)
Interest expense	(3,098)	(2,639)	(2,004)	(2,755)	(2,988)
Income taxes	(12,981)	(11,881)	(9,073)	(7,970)	(3,194)
Consolidated	$ 19,785	$ 17,338	$ 13,612	$ 11,809	$ 4,833
IDENTIFIABLE ASSETS					
Beer—Canada	$165,752	$141,801	$125,701	$120,679	$122,438
—Ireland	21,875	20,052	16,906	15,251	13,390
Wine	52,801	52,681	52,963	51,046	47,949
Oil and gas	58,967	51,993	42,227	28,015	21,960
	299,395	266,527	237,797	214,991	205,737
Corporate	18,103	14,306	15,034	22,933	12,412
Discontinued operations	—	—	—	—	50,910
Consolidated	$317,498	$280,833	$252,831	$237,924	$269,059
CAPITAL EXPENDITURES					
Beer—Canada	$ 14,714	$ 9,857	$ 9,262	$ 11,787	$ 9,286
—Ireland	923	1,611	493	164	212
Wine	2,050	1,970	2,305	4,329	3,055
Oil and gas	8,800	11,953	14,473	6,494	5,291
Consolidated	$ 26,487	$ 25,391	$ 26,533	$ 22,774	$ 17,844
DEPRECIATION AND DEPLETION					
Beer—Canada	$ 6,621	$ 6,190	$ 5,831	$ 5,780	$ 5,539
—Ireland	473	471	510	554	539
Wine	1,144	1,040	954	941	880
Oil and gas	2,367	2,040	1,614	1,160	754
Consolidated	$ 10,605	$ 9,741	$ 8,909	$ 8,435	$ 7,712

Earnings by segment represents total sales less all operating expenses other than corporate costs, interest and income taxes. Identifiable assets are those that are used in the Corporation's operations in each industry with corporate assets comprised of cash, short term deposits, receivable from sale of trade marks and mortgage receivable.

FIVE YEAR FINANCIAL SUMMARY

(UNAUDITED)
(IN THOUSANDS OF DOLLARS)

	1981	1980	1979	1978	1977
EARNINGS					
Earnings from continuing operations	$ 19,785	$ 17,338	$ 13,612	$ 11,809	$ 4,833
Loss from discontinued operations	—	—	—	(10,157)	(101)
Earnings before extraordinary items	19,785	17,338	13,612	1,652	4,732
Extraordinary items					
Continuing operations	10,500	—	322	1,882	—
Discontinued operations	—	—	—	(12,093)	670
Net earnings (loss)	$ 30,285	$ 17,338	$ 13,934	$ (8,559)	$ 5,402
Dividends —preference	$ 2,062	$ 2,077	$ 2,091	$ 2,107	$ 2,117
—common	$ 4,352	$ 2,176	$ 1,088	$ —	$ —
Net earnings (loss) per common share					
From continuing operations	82¢	70¢	53¢	45¢	12¢
Before extraordinary items	82¢	70¢	53¢	(2)¢	12¢
After extraordinary items	$1.30	70¢	54¢	(49)¢	15¢
Dividends per common share	20¢	10¢	5¢	—	—
BALANCE SHEET					
Current assets	$117,499	$103,858	$ 90,942	$ 94,937	$ 80,641
Current liabilities	77,716	64,423	50,475	45,498	71,716
Working capital	39,783	39,435	40,467	49,439	8,925
Property, plant and equipment—net	161,874	147,847	132,736	117,635	107,791
Other assets	38,125	29,128	29,153	25,352	29,717
Discontinued operations	—	—	—	—	50,910
Net assets	239,782	216,410	202,356	192,426	197,343
Long term debt	14,744	18,195	20,622	24,592	23,400
Other long term obligations	33,806	30,704	27,144	23,826	19,115
Preference shares	42,526	42,776	43,026	43,283	43,538
Common shares and retained earnings	$148,706	$124,735	$111,564	$100,725	$111,290
Current ratio	1.5	1.6	1.8	2.1	1.1
Return on shareholders' equity	15.8%	10.3%	9.0%	(5.9)%	3.5%
Return on capital employed	11.0%	10.0%	8.9%	8.4%	4.8%
Book value per common share	$6.83	$5.73	$5.13	$4.63	$5.11

Return on capital employed represents earnings from continuing operations excluding deferred income taxes and after tax interest expense divided by average capital employed. Capital employed is the average of the opening and closing balances of shareholders' equity (net of discontinued operations), interest bearing debt and other long term obligations.

QUARTERLY FINANCIAL DATA

(UNAUDITED)
(IN THOUSANDS OF DOLLARS)

	Quarter Ended			
1981	**June 30**	**Sept. 30**	**Dec. 31**	**Mar. 31**
Sales	$145,669	$140,308	$140,343	$111,028
Gross profit (1)	$ 50,043	$ 46,332	$ 47,675	$ 39,435
Earnings before extraordinary item	$ 6,147	$ 5,179	$ 6,227	$ 2,232
Extraordinary item	10,500	—	—	—
Net earnings	$ 16,647	$ 5,179	$ 6,227	$ 2,232
Net earnings per common share				
Before extraordinary item	25.9¢	21.4¢	26.3¢	7.9¢
After extraordinary item	74.1¢	21.4¢	26.3¢	7.9¢
1980				
Sales	$122,124	$132,273	$124,490	$ 99,172
Gross profit (1)	$ 42,199	$ 46,806	$ 41,644	$ 34,032
Net earnings	$ 4,510	$ 6,619	$ 5,285	$ 924
Net earnings per common share	18.3¢	28.1¢	21.9¢	1.8¢

(1) Sales less excise and sales taxes and raw materials and manufacturing costs.

SUPPLEMENTARY OIL AND GAS INFORMATION

(UNAUDITED)

The following information is required by the Securities and Exchange Commission (SEC) of the United States for oil and gas producing activities.

The Corporation has endeavoured to provide meaningful and accurate information in accordance with the SEC Regulations. However, the Corporation cautions against the use of the estimated future net revenues, the estimated present value of future net revenues and the Reserve Recognition Accounting (RRA) data for any particular year, for comparison to other corporations or in evaluating the value of the oil and gas operations or the effectiveness of the exploration effort during any particular year. Estimated future net revenues are based on many assumptions including reserve quantities, production rates and timing of future production from presently shut-in reserves. It should be borne in mind that the estimates and RRA exclude probable reserves and land holdings. RRA results are not comparable to an historical financial statement.

Geographic segmentation is not shown separately as more than 90% of the capitalized costs and estimated reserves are located in Canada, primarily in Alberta and Saskatchewan.

The National Energy Program (Program) was tabled in Parliament by the Government of Canada on October 28, 1980. The Program, as proposed, will substantially reduce after-tax earnings and cash flow of Star Oil & Gas Ltd. The Program may significantly affect the assumptions used for the timing of future expenditures to be incurred in developing and producing shut-in proved reserves and the resulting estimated future net revenues. The Program is not yet law, but the 8% petroleum and gas revenue tax, introduced as part of the Program, was implemented on all production after January 1, 1981. This tax is not deductible in computing income for tax purposes.

METRIC CONVERSION:

The Canadian petroleum industry utilizes the metric system. The following conversion factors are given to convert metric terms to the Imperial system of units.

TO CONVERT FROM:		TO:		MULTIPLY BY:
Cubic metres	(m^3)	Barrels	(bbl)	6.3
Thousands of cubic metres	(10^3m^3)	Thousands of cubic feet	(mcf)	35.5
Hectares	(ha)	Acres	(ac)	2.5

ESTIMATED NET QUANTITIES OF PROVED RESERVES OF OIL (INCLUDING NATURAL GAS LIQUIDS) AND NATURAL GAS:

The movement in estimated proved developed and undeveloped reserves before the deduction of royalties for natural gas and oil, which includes natural gas liquids, was as follows:

	1981		1980		1979	
	NATURAL GAS	OIL	NATURAL GAS	OIL	NATURAL GAS	OIL
	(10^6m^3)	(10^3m^3)	(10^6m^3)	(10^3m^3)	(10^6m^3)	(10^3m^3)
Proved developed and undeveloped reserves at April 1	5,155	979	5,305	1,012	4,995	1,001
Additions	127	35	421	72	428	89
Revisions of estimates	—	—	(430)	(23)	—	—
Production	(139)	(82)	(141)	(82)	(118)	(78)
Proved developed and undeveloped reserves at March 31	5,143	932	5,155	979	5,305	1,012
Proved developed reserves at March 31	3,059	932	3,071	979	3,221	1,012
Reserves net of estimated royalties as at March 31						
Proved developed	2,252	759	2,262	784	*	*
Proved undeveloped	1,886	—	1,886	—	*	*
Total	4,138	759	4,148	784	*	*

*Not available

The geographical location of the proved reserve quantities as at March 31, 1981 was:

	Oil	Natural Gas	
	Developed	Developed	Undeveloped
Alberta	53%	68%	—%
British Columbia	1	12	—
Saskatchewan	46	18	100
United States	—	2	—
	100%	100%	100%

Estimates of proved developed reserves were prepared by independent evaluators and are deemed to be those reserves which to a high degree of certainty are considered to be recoverable at commercial rates under present production methods and current operating conditions, prices and costs. Estimates of proved undeveloped reserves include only those reserves which are expected to be recovered on undrilled lands from new wells which are virtually certain of production when drilled. Proved developed and undeveloped reserves do not include additional reserves which may be found by extensions of presently proved reservoirs or by new discoveries on presently held properties.

ESTIMATED FUTURE NET REVENUES

The company's estimated future net revenues (sales less royalties, production expenses, petroleum and gas revenue tax and development expenditures) are presented below. The estimated future net revenues are included at price levels in effect at March 31, 1981, with no provision for future price increases or inflation. Future income taxes payable have not been deducted in computing estimated future net revenues.

Years ending March 31	Proved Developed Reserves
	(in thousands of dollars)
1982	$ 7,594
1983	8,500
1984	8,395
Remaining years	118,378
Total estimated future net revenues before income taxes	$142,867

Present value of future net revenues before income taxes discounted at 10%	
As of March 31, 1981	$ 66,192
As of March 31, 1980	$ 66,779
As of March 31, 1979	$ 51,353

The estimated present value of future net revenues using SEC procedures is not designed to yield a fair market value of the company's oil and gas reserves. This procedure does not take into account the following:

a) The potential future recoveries of "probable" oil and gas reserves.
b) The value of the company's unproved land holdings.
c) Future increases of oil and gas prices and inflation on related production and development costs.
d) Changes in royalty rates.
e) Income taxes on estimated future net revenues.
f) A discount factor that bears a closer relationship to present interest rates.

The total estimated future net revenues before income taxes of undeveloped reserves are estimated to be minimal under the proposed National Energy Program and are therefore not presented separately.

SUMMARY OF CHANGES IN PRESENT VALUE OF ESTIMATED FUTURE NET REVENUES AND RESERVE RECOGNITION ACCOUNTING (RRA)

The following table shows a reconciliation for 1980 and 1981 of the pre-tax present value of proved developed and undeveloped reserves at the beginning and the end of each year under the column headed "Net present value of proved reserves". The column headed "Results of oil and gas production activity" shows the company's after-tax results for the year on the basis of RRA.

RRA departs significantly from historical accounting practices. Under RRA, a dollar valuation of proved reserves is computed as described in "Estimated future net revenues" and earnings are recognized when proved reserves are discovered or the valuation of proved reserves changes, not when production is sold.

		NET PRESENT VALUE OF PROVED RESERVES		RESULTS OF OIL AND GAS PRODUCTION ACTIVITY	
		1981	1980	1981	1980
		(IN THOUSANDS OF DOLLARS)			(RESTATED)
Additions to estimated proved reserves, net of present value of estimated future development and production costs	(a)	$ 2,257	$ 9,936	$ 2,257	$ 9,936
Revisions of estimates of prior years					
Changes in reserves	(b)	—	(5,211)	—	(5,211)
Changes in prices	(c)	8,915	11,663	8,915	11,663
Interest factor	(d)	6,678	5,135	6,678	5,135
Petroleum and gas revenue tax	(e)	(9,719)	—	(9,719)	—
Other	(f)	(56)	1,261	(56)	1,261
		8,075	22,784	8,075	22,784
Costs incurred				(9,329)	(12,526)
Net sales of oil and gas (after production costs)		(9,007)	(7,358)		
Petroleum and gas revenue tax paid		345	—		
Change or amount before income taxes		(587)	15,426	(1,254)	10,258
Provision for income taxes	(g)			3,500	2,300
Net change or net amount		(587)	15,426	$(4,754)	$ 7,958
Balance, beginning of year		66,779	51,353		
Balance, end of year		$66,192	$66,779		
Earnings from operations before income taxes for oil and gas activities on the basis reported in the segmented information of the primary (historical cost) financial statements				$ 6,074	$ 4,720

NOTES

(a) Additions to estimated proved reserves from current exploration and development activities are computed by applying current prices to estimated future production net of estimated future production and development costs, discounted at 10%.

(b) Changes in reserves represents the approximate effect of revising the estimated present value of future net revenues from reserves at the beginning of the year due to revisions in the estimated quantities of proved oil and gas reserves.

(c) Changes in prices represents the approximate effect of increases in oil and gas prices and royalties from one year to the next, net of current year escalations in future production and development costs.

(d) Interest factor is the recognition of one year's discount on the opening estimated present value of proved oil and gas reserves.

(e) The petroleum and gas revenue tax, introduced by the Government of Canada effective January 1, 1981, reduced the value of the company's reserves by an estimated $9,719,000. This tax is not deductible in calculating income taxes.

(f) Other includes revisions to the timing of future production volumes.

(g) Income taxes were provided for by applying the current statutory tax rate to the estimated future taxable income to be generated from production of proved reserves (including appropriate adjustments for non-deductible expenses and remaining current tax deductions relating to the cost of oil and gas properties) as of the end of the year, and deducting the similarly computed amounts as of the beginning of the year. To this amount was added the current tax provision for oil and gas production activities during the year.

MARKET PRICE OF SHARES AND RELATED SECURITY HOLDER MATTERS

The common stock trades on the Toronto, Montreal, Vancouver, New York and Amsterdam exchanges, using the symbol CKB. The valuation day value was $7.50. There were 22,024 Shareholders of record as at March 31, 1981.

The $2.20 Series A and $2.65 Series B preference shares are traded on The Toronto Stock Exchange. The valuation day value was $32.00 and $36.50 respectively. There were 2,220 and 1,345 Shareholders of record respectively as at March 31, 1981.

	1981				1980			
	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
COMMON								
Toronto Stock Exchange								
High	$ 9.50	$11.75	$12.50	$10.12	$10.62	$ 7.12	$ 6.75	$ 6.62
Low	7.50	8.50	8.62	6.37	5.75	4.80	5.25	5.00
New York Stock Exchange (United States currency)								
High	7.87	10.25	10.87	8.75	9.37	6.50	5.75	5.75
Low	6.12	6.87	7.50	5.25	4.00	4.12	4.50	4.37
Dividends paid per common share	5.0¢	5.0¢	5.0¢	5.0¢	2.5¢	2.5¢	2.5¢	2.5¢
PREFERENCE								
Toronto Stock Exchange								
Series A								
High	$22.00	$22.50	$23.50	$25.25	$25.00	$27.00	$27.75	$27.50
Low	20.25	20.00	22.00	21.00	19.75	23.62	26.25	26.25
Series B								
High	25.62	27.00	30.12	30.00	28.50	31.62	33.00	33.75
Low	23.50	23.00	26.25	24.50	26.37	26.25	31.75	32.75

There are no restrictions on the export or import of capital which affect the remittance of dividends, interest or other payments to non-resident holders of the Corporation's securities.

The Foreign Investment Review Act requires the prior approval by the Government of Canada of the acquisition by, or transfer to, non-eligible persons of direct or indirect control of a Canadian business entity. The Act does not apply to the purchase of shares or securities of a corporation where such purchases would not give the purchasers control of the corporation.

Withholding taxes at the rate of 25% are imposed on the payment of dividends and interest to non-residents of Canada. Under certain tax treaties, including the Canada/United States tax treaty, such rate is reduced from 25% to 15%. Because residents of Canada hold at least 25% of the Corporation's outstanding shares and at least 25% of the Directors of the Corporation are resident in Canada, the withholding tax rate is further reduced on dividends to 10%.

FORM 10-K

Carling O'Keefe Limited common shares are traded on The New York Stock Exchange and the Corporation therefore files an annual report on Form 10-K with the Securities and Exchange Commission in Washington, D.C. Shareholders may obtain a copy of this report by writing to the Vice President Legal and Secretary of the Corporation.

VERSION FRANÇAISE

Si vous désirez une version française de ce rapport, veuillez en faire la demande par écrit au:

Vice-président juridique et secrétaire
Carling O'Keefe Limitée
79 St. Clair Avenue East, Toronto,
Canada M4T 1M6

CARLING O'KEEFE LIMITED

PRINCIPAL OPERATING SUBSIDIARY COMPANIES

CANADA
Carling O'Keefe Breweries of Canada Limited
La Brasserie O'Keefe Inc.
Jordan Valley Wines Limited
Star Oil & Gas Ltd.

REPUBLIC OF IRELAND
Beamish & Crawford Limited

CHIEF EXECUTIVE OFFICERS OF PRINCIPAL OPERATING SUBSIDIARIES

JAMES R. TAYLOR
Carling O'Keefe Breweries of Canada Limited

I. LOYOLA MATTE
La Brasserie O'Keefe Inc.

DONALD H. TWINER
Jordan Valley Wines Limited

RALPH A. ESTELLE
Star Oil & Gas Ltd.

R. ANTHONY HALPIN
Beamish & Crawford Limited

EXECUTIVE OFFICES

79 St. Clair Avenue East
Toronto, Canada M4T 1M6

AUDITORS

Price Waterhouse & Co.

BANKERS

Bank of Montreal
The Royal Bank of Canada
Chemical Bank—New York

REGISTRARS IN CANADA

Montreal Trust Company

REGISTRARS IN THE UNITED STATES

Morgan Guaranty Trust Company of New York

SOLICITORS

Smith, Lyons, Torrance, Stevenson and Mayer

TRANSFER AGENTS IN CANADA

National Trust Company, Limited
Ontario, Quebec, Manitoba, Alberta and British Columbia

Canada Permanent Trust Company
New Brunswick and Nova Scotia

The Canada Trust Company
Saskatchewan

TRANSFER AGENTS IN THE UNITED STATES

The Chase Manhattan Bank

DIRECTORS

RALPH L. BEATTY, C.A.
Executive Vice President Finance
Carling O'Keefe Limited, Toronto, Ontario

CONRAD M. BLACK, LL.L., M.A.
Vice-Chairman & Chief Executive Officer
Hollinger Argus Limited, Toronto, Ontario

JOHN P. U. BURR, M.B.E.
Director, Bass Limited, London, England

JOHN H. DEVLIN
Chairman of the Board
Rothmans of Pall Mall Canada Limited
Toronto, Ontario

THE HONOURABLE ALASTAIR GILLESPIE, P.C., M.A., M.Com.†
Chairman of the Board
Carling O'Keefe Limited, Toronto, Ontario

JOHN C. LOCKWOOD†*
Company Director, Toronto, Ontario

I. LOYOLA MATTE
Chairman of the Board
La Brasserie O'Keefe Inc., Montreal, Quebec

S. RODERICK McINNES, C.A.†
President & Chief Executive Officer
Carling O'Keefe Limited, Toronto, Ontario

SIR DAVID NICOLSON, F.Eng., M.E.P.
Chairman of the Board
Rothmans International Limited, London, England

GEORGE C. SOLOMON, LL.D.*
President, Western Limited, Regina, Saskatchewan

POUL J. SVANHOLM
President & Chief Executive Officer
The United Breweries Ltd., Copenhagen, Denmark

LOUISE B. VAILLANCOURT*
Company Director, Outremont, Quebec

OFFICERS

ALASTAIR GILLESPIE
Chairman of the Board

S. RODERICK McINNES
President & Chief Executive Officer

RALPH L. BEATTY
Executive Vice President Finance

J. ANTHONY GAUNTLEY, M.C.
Vice President International

PETER JOHN YOUNG
Vice President Legal & Secretary

ALAN M. HODGE
Treasurer

LINDA I. THOMPSON
Assistant Secretary

†Member of the Pension and Compensation Committee of the Board
*Member of the Audit Committee of the Board

Jordan & Ste-Michelle had an active new product program during the year, featuring Prince de Mousseux, a trio of sparkling wines launched in Ontario; Falkenberg, a German-style white table wine launched in British Columbia; and Ramatuelle, a line of two aperitifs introduced in Ontario.

CARLING O'KEEFE LIMITED ANNUAL REPORT 1981